



PETRONAS

PETRONAS GAS BERHAD

Interim Financial Report

for the Third Quarter ended 30 September 2017

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017



Key Financial Highlights	9 months ended		Variance %
	2017	30 September 2016	
<i>In RM'000</i>			
Revenue	3,505,868	3,407,337	+2.9
Profit before taxation (PBT)	1,646,819	1,622,777	+1.5
Profit for the period	1,306,491	1,272,830	+2.6
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	2,382,755	2,302,144	+3.5
Earnings per share (EPS) (sen)	66.00	64.37	+2.5
Declared dividends per share (sen)	50.00	45.00	+11.1

- **PETRONAS Gas Berhad Group's revenue for the nine months period ended 30 September 2017 stood at RM3.5 billion, an increase of 2.9%** as compared to the corresponding period primarily driven by higher utilities revenue, as a result of higher average sales prices to customers in line with upward fuel gas price revision effective 1 January and 1 July 2017 respectively, further supported by regasification revenue.
- **PBT was at RM1.6 billion, an increase of 1.5%** on comparable gross profit, mainly due to higher other income arising from higher interest income.
- **Profit for the period increased by 2.6% or RM33.7 million** in line with higher PBT coupled with lower tax expense as a result of higher utilisation of Utilities business tax incentive.
- **EBITDA were higher by 3.5%** in tandem with higher PBT.
- **EPS was higher by 1.63 sen** in line with higher net profit attributable to shareholders of the Company.
- **The Board of Directors has approved** a third interim dividend of 16 sen per ordinary share amounting to RM316.6 million in respect of the financial year ending 31 December 2017.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017



The Board of Directors of PETRONAS Gas Berhad (PGB or the Company) is pleased to announce the following unaudited condensed consolidated financial statements of PGB Group for the third quarter ended 30 September 2017 which should be read in conjunction with the Explanatory Notes on pages 5 to 18.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2017	As at 31 December 2016
<i>In RM'000</i>		
ASSETS		
Property, plant and equipment	12,945,263	12,807,524
Prepaid lease payment	4,326	4,645
Investment in joint ventures	606,800	605,990
Investment in associate	141,251	130,162
Deferred tax assets	370,097	408,042
Long term receivables	96,636	47,905
TOTAL NON-CURRENT ASSETS	14,164,373	14,004,268
Trade and other inventories	65,484	68,468
Trade and other receivables	758,090	711,914
Cash and cash equivalents	2,426,776	1,763,117
Tax recoverable	-	5,865
TOTAL CURRENT ASSETS	3,250,350	2,549,364
TOTAL ASSETS	17,414,723	16,553,632
EQUITY		
Share capital	3,165,204	1,978,732
Reserves	9,154,566	9,988,048
Total equity attributable to the shareholders of the Company	12,319,770	11,966,780
Non-controlling interests	216,559	194,469
TOTAL EQUITY	12,536,329	12,161,249
LIABILITIES		
Borrowings	2,962,613	2,216,869
Deferred tax liabilities	1,129,566	1,131,032
Deferred income	5,198	5,907
TOTAL NON-CURRENT LIABILITIES	4,097,377	3,353,808
Trade and other payables	588,110	1,006,007
Borrowings	32,612	32,568
Tax payable	160,295	-
TOTAL CURRENT LIABILITIES	781,017	1,038,575
TOTAL LIABILITIES	4,878,394	4,392,383
TOTAL EQUITY AND LIABILITIES	17,414,723	16,553,632
Net assets per share attributable to the shareholders of the Company (RM)	6.2261	6.0477

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

	3 months ended 30 September		9 months ended 30 September	
	2017	2016	2017	2016
<i>In RM'000</i>				
Revenue	1,163,208	1,157,800	3,505,868	3,407,337
Cost of revenue	(657,087)	(634,583)	(1,921,473)	(1,823,364)
Gross profit	506,121	523,217	1,584,395	1,583,973
Administration expenses	(20,996)	(21,218)	(66,208)	(66,547)
Other expenses	(1,029)	(27)	(3,463)	(160)
Other income	53,134	40,141	153,844	119,598
Operating profit	537,230	542,113	1,668,568	1,636,864
Financing costs	(24,950)	(22,245)	(77,127)	(68,364)
Share of profit after tax of equity-accounted associate and joint ventures	20,362	26,428	55,378	54,277
Profit before taxation	532,642	546,296	1,646,819	1,622,777
Tax expense	(115,242)	(124,178)	(340,328)	(349,947)
PROFIT FOR THE PERIOD	417,400	422,118	1,306,491	1,272,830
Other comprehensive income/(expenses)				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movement from exchange differences	(11,616)	18,810	(40,784)	(19,371)
Cash flow hedge	17,457	(30,943)	72,359	36,742
Share of cash flow hedge of an equity- accounted joint venture	(2,640)	1,220	(9,480)	(2,607)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	420,601	411,205	1,328,586	1,287,594
Profit attributable to:				
Shareholders of the Company	417,427	422,710	1,305,987	1,273,632
Non-controlling interests	(27)	(592)	504	(802)
PROFIT FOR THE PERIOD	417,400	422,118	1,306,491	1,272,830
Total comprehensive income/(expenses) attributable to:				
Shareholders of the Company	424,693	405,118	1,342,356	1,295,176
Non-controlling interests	(4,092)	6,087	(13,770)	(7,582)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	420,601	411,205	1,328,586	1,287,594
Basic and diluted earnings per ordinary share (sen)	21.10	21.36	66.00	64.37

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to shareholders of the Company							Non-controlling interests	Total
	Non-Distributable				Distributable		Total		
	Share capital	Share premium	Hedging reserve	Foreign currency translation reserve	Retained profits				
<i>In RM'000</i>									
Quarter ended 30 September 2016									
Balance at 1 January 2016	1,978,732	1,186,472	41,485	36,371	8,195,739	11,438,799	156,137	11,594,936	
Net movement from exchange differences	-	-	-	(12,591)	-	(12,591)	(6,780)	(19,371)	
Cash flow hedge	-	-	36,742	-	-	36,742	-	36,742	
Share of cash flow hedge of an equity-accounted joint venture	-	-	(2,607)	-	-	(2,607)	-	(2,607)	
Profit for the period	-	-	-	-	1,273,632	1,273,632	(802)	1,272,830	
Total comprehensive income for the period	-	-	34,135	(12,591)	1,273,632	1,295,176	(7,582)	1,287,594	
Issuance of shares to non-controlling interest	-	-	-	-	-	-	25,477	25,477	
Interim dividend declared and paid in respect of previous year	-	-	-	-	(336,384)	(336,384)	-	(336,384)	
Interim dividend declared and paid in respect of the current year	-	-	-	-	(554,044)	(554,044)	-	(554,044)	
Total transactions with shareholders of the Company	-	-	-	-	(890,428)	(890,428)	25,477	(864,951)	
Balance at 30 September 2016	1,978,732	1,186,472	75,620	23,780	8,578,943	11,843,547	174,032	12,017,579	
Quarter ended 30 September 2017									
Balance at 1 January 2017	1,978,732	1,186,472	(2,331)	56,354	8,747,553	11,966,780	194,469	12,161,249	
Net movement from exchange differences	-	-	-	(26,510)	-	(26,510)	(14,2744)	(40,784)	
Cash flow hedge	-	-	72,359	-	-	72,359	-	72,359	
Share of cash flow hedge of an equity-accounted joint venture	-	-	(9,480)	-	-	(9,480)	-	(9,480)	
Profit for the period	-	-	-	-	1,305,987	1,305,987	504	1,306,491	
Total comprehensive income for the period	-	-	62,879	(26,510)	1,305,987	1,342,356	(13,770)	1,328,586	
Transfer of share premium (Note a)	1,186,472	(1,186,472)	-	-	-	-	-	-	
Issuance of shares to non-controlling interest	-	-	-	-	-	-	35,860	35,860	
Interim dividend declared and paid in respect of previous year	-	-	-	-	(375,959)	(375,959)	-	(375,959)	
Interim dividend declared and paid in respect of the current year	-	-	-	-	(613,407)	(613,407)	-	(613,407)	
Total transactions with shareholders of the Company	1,186,472	(1,186,472)	-	-	(989,366)	(989,366)	35,860	(953,505)	
Balance at 30 September 2017	3,165,204	-	60,548	29,844	9,064,174	12,319,770	216,559	12,536,329	

Note a: Pursuant to section 74 of the Companies Act, 2016 ('the Act'), the Company's shares no longer have a par or nominal value with effect from 31 January 2017. In accordance with the transitional provision set out in section 618 of the Act, any amount standing to the credit of the share premium account becomes part of the Company's share capital. Companies have 24 months upon the commencement of the Act to utilise the credit.

There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition. During the financial period, the Company has not utilised any of the credit in the share premium account which are now part of share capital.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	9 months ended	
	30 September	
	2017	2016
<i>In RM'000</i>		
Cash receipts from customers	3,459,789	3,507,781
Cash paid to suppliers and employees	(1,531,454)	(1,478,599)
	1,928,335	2,029,182
Interest income	52,820	37,031
Taxation paid	(137,690)	(93,569)
Net cash generated from operating activities	1,843,465	1,972,644
Dividend received from associate and joint venture	34,000	16,664
Loans and advances to a joint venture	(45,943)	-
Purchase of property, plant and equipment	(1,036,780)	(1,272,905)
Proceeds from disposal of property, plant and equipment	61	339
Net cash used in investing activities	(1,048,662)	(1,255,902)
Dividends paid	(989,366)	(890,428)
Financing costs paid	(77,223)	(77,911)
Drawdown of term loan	681,793	462,418
Drawdown of loan from corporate shareholder of a subsidiary	243,762	175,041
Repayment of finance lease liabilities	(25,598)	(22,498)
Proceeds from shares issued to a non-controlling interest	35,860	25,477
Net cash used in financing activities	(130,772)	(327,901)
Net increase in cash and cash equivalents	664,031	388,841
Net foreign exchange difference	(372)	(532)
Cash and cash equivalents at beginning of the period	1,763,117	1,230,815
Cash and cash equivalents at end of the period	2,426,776	1,619,124

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017



PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

1. BASIS OF PREPARATION

The interim financial statements have been prepared using historical cost basis except for certain financial assets and financial liabilities that are stated at fair value.

The interim financial statements have been prepared in accordance with the requirements of IAS 34, *Interim Financial Reporting*, MFRS 134, *Interim Financial Reporting* and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements are unaudited and should be read in conjunction with the Group's audited consolidated financial statements and the accompanying notes for the year ended 31 December 2016. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2016.

Within the context of these financial statements, the Group comprises the Company and its subsidiaries and the Group's interest in an associate and its joint ventures as at and for the quarter ended 30 September 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for 31 December 2017 under the Malaysian Financial Reporting Standards (MFRS) framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2016 except as described below.

As of 1 January 2017, the Group has adopted the following amendments to MFRSs which are effective for annual periods beginning on or after 1 January 2017.

Amendments to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)

Amendments to MFRS 107 Statement of Cash Flows: Disclosure Initiative

Amendments to MFRS 112 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The initial application of the above mentioned amendments to MFRSs do not have any material impact to the financial statements of the Group.

3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

There was no qualified audit report issued by the auditors in the annual financial statements for the year ended 31 December 2016.

4. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of the amounts reported in the most recent annual financial statements of the Group for the year ended 31 December 2016 that may have a material effect in the results of the quarter under review.

5. SEASONAL OR CYCLICAL FACTORS

The Group's operations are not significantly affected by seasonal or cyclical fluctuations of the business/industry.

6. EXCEPTIONAL ITEMS

There were no exceptional items during the quarter under review.

7. PROPERTY, PLANT AND EQUIPMENT

Freehold land and projects-in-progress are stated at cost and are not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134****8. DEBT AND EQUITY SECURITIES**

There were no issuance, cancellations, repurchases, resale and repayments of debt and equity securities during the quarter ended 30 September 2017.

9. DIVIDENDS

The following dividends were declared and paid by the Company:

<i>In RM'000</i>	9 months ended	
	30 September	
	2017	2016
Ordinary		
Interim paid:		
2015 - Fourth interim dividend of 17 sen per ordinary share	-	336,384
2016 - First interim dividend of 14 sen per ordinary share	-	277,022
2016 - Second interim dividend of 14 sen per ordinary share	-	277,022
2016 - Fourth interim dividend of 19 sen per ordinary share	375,959	-
2017 - First interim dividend of 15 sen per ordinary share	296,810	-
2017 - Second interim dividend of 16 sen per ordinary share	316,597	-
	989,366	890,428

On 10 November 2017, the Directors of the Company approved a third interim dividend of 16 sen per ordinary share, amounting to RM316.6 million in respect of the financial year ending 31 December 2017.

The dividends are payable on 8 December 2017 to depositors registered in the Records of Depositors at the close of business on 27 November 2017.

A Depositor shall qualify for entitlement to the dividends only in respect of:

- a) Shares transferred into the Depositor's Securities Account before 4.00 pm on 27 November 2017 in respect of ordinary transfers.
- b) Shares brought on the Bursa Malaysia Securities Berhad on a cum entitlement basis accordingly to the rules of the Bursa Malaysia Securities Berhad.

The interim financial statements for the current quarter do not reflect this approved interim dividend. The dividend, will be accounted for in equity as an appropriation of retained profits in the financial statements for the fourth quarter ending 31 December 2017.

10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the quarter under review.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134****11. FAIR VALUE INFORMATION**

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position. The fair value hierarchy in the valuation technique are as follows:

- Level 1 - Quoted priced (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are, either directly (i.e. as prices) or indirectly observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable input).

There were no transfers between Level 2 and 3 of the fair value valuation hierarchy during the financial period.

<i>In RM'000</i>	Fair value of financial instruments carried at fair value Level 1	Fair value of financial instruments carried at fair value Level 2	Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amounts
30 September 2017					
Financial assets					
Long term receivables	-	-	90,658	90,658	90,658
Derivative assets	-	5,978	-	5,978	5,978
	-	5,978	90,658	96,636	96,636
Financial liabilities					
Finance lease liabilities	-	-	(1,074,600)	(1,074,600)	(1,074,600)
Term loan	-	-	(1,412,904)	(1,412,904)	(1,412,904)
Loan from corporate shareholder of subsidiary	-	-	(507,721)	(507,721)	(507,721)
	-	-	(2,995,225)	(2,995,225)	(2,995,225)
31 December 2016					
Financial assets					
Long term receivables	-	-	47,905	47,905	47,905
Derivative assets	-	15	-	15	15
	-	15	47,905	47,920	47,920
Financial liabilities					
Finance lease liabilities	-	-	(1,166,580)	(1,166,580)	(1,166,580)
Term loan	-	-	(795,602)	(795,602)	(795,602)
Loan from corporate shareholder of a subsidiary	-	-	(287,255)	(287,255)	(287,255)
	-	-	(2,249,437)	(2,249,437)	(2,249,437)

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134****12. SEGMENTAL INFORMATION**

The Group has four reporting segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because it requires different technology and marketing strategies. The following summary describes the operations in each of the Group's reporting segments:

- Gas Processing – activities include processing of natural gas from gas fields offshore the East Coast of Peninsular Malaysia into salesgas and other by-products such as ethane, propane and butane.
- Gas Transportation – activities include transportation of processed gas to PETRONAS' end customers throughout Malaysia and export to Singapore.
- Utilities – activities include manufacturing, marketing and supplying of industrial utilities to the petrochemical complexes in the Kertih and Gebeng Industrial Area.
- Regasification – activities include regasification of liquefied natural gas (LNG) into the Peninsular Gas Utilisation pipeline network.

Performance is measured based on segment gross profit, as included in the performance reports to the Board of Directors as the Company believes that such information is the most relevant in evaluating the results of the segments.

The Group operates in Malaysia and accordingly, information by geographical location is not presented.

The segmental information in respect of the associate and joint ventures is not presented as the contribution of the associate and joint ventures and the carrying amount of investment in the associate and joint ventures have been reflected in the statement of profit or loss and other comprehensive income and statement of financial position of the Group respectively.

<i>In RM'000</i>	9 months ended				
	30 September 2017				
Business Segment	Gas Processing	Gas Transportation	Utilities	Regasification	Total
Revenue	1,165,699	981,155	862,519	496,495	3,505,868
Segment results	486,514	759,929	113,252	224,700	1,584,395
Unallocated income					84,173
Operating profit					1,668,568
Financing costs					(77,127)
Share of profit after tax of equity-accounted associate and joint ventures					55,378
Profit before taxation					1,646,819

<i>In RM'000</i>	9 months ended				
	30 September 2016				
Business Segment	Gas Processing	Gas Transportation	Utilities	Regasification	Total
Revenue	1,170,328	973,514	781,128	482,367	3,407,337
Segment results	509,480	744,911	119,185	210,397	1,583,973
Unallocated income					52,891
Operating profit					1,636,864
Financing costs					(68,364)
Share of profit after tax of equity-accounted associate and joint ventures					54,277
Profit before taxation					1,622,777

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134****12. SEGMENTAL INFORMATION (continued)**

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated income/(expenses) mainly comprises foreign exchange gain or loss and other corporate income and expenses.

13. SUBSEQUENT EVENTS

There were no material events subsequent to the end of the quarter.

14. CONTINGENCIES

<i>In RM'000</i>	As at 30 September 2017	As at 31 December 2016
Unsecured		
Counter claim by a third party against a joint venture	<u>137,296</u>	-

Kimanis Power Sdn Bhd (KPSB), a 60% joint venture company of the Group, has issued a Notice of Arbitration on 24 March 2017 to Sabah Electricity Sdn Bhd (SESB) in connection to disputes on Power Purchase Agreement entered into between the parties.

Subsequent to the issuance of the Notice of Arbitration, KPSB had on 12 September 2017 filed its Statement of Claim for an estimated sum of RM83,381,000 plus interests. SESB has since filed its Statement of Defence and Counterclaim on 2 November 2017 amounting to a sum of RM228,826,000 plus interests. No provision has been made on the above contingencies (i.e. RM137,296,000 being the 60% of the counterclaim) in the financial statements up to the reporting date.

15. CAPITAL COMMITMENTS

Outstanding commitments in respect of capital expenditure at the end of each reporting period not provided for in the interim financial statements are as follows:

<i>In RM'000</i>	As at 30 September 2017	As at 31 December 2016
Property, plant and equipment		
Approved and contracted for	964,965	1,467,297
Approved but not contracted for	<u>2,520,001</u>	<u>2,542,181</u>
	<u>3,484,966</u>	<u>4,009,478</u>
Share of capital expenditure of joint ventures		
Approved and contracted for	197,074	261,917
Approved but not contracted for	<u>51,430</u>	<u>55,089</u>
	<u>248,504</u>	<u>317,006</u>
	<u>3,733,470</u>	<u>4,326,484</u>

16. RELATED PARTY TRANSACTIONS

There were no significant transactions with related parties other than addition to the related party transactions disclosed in the audited financial statements for the year ended 31 December 2016.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017



PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

17. REVIEW OF GROUP PERFORMANCE

(a) Current quarter against the corresponding quarter

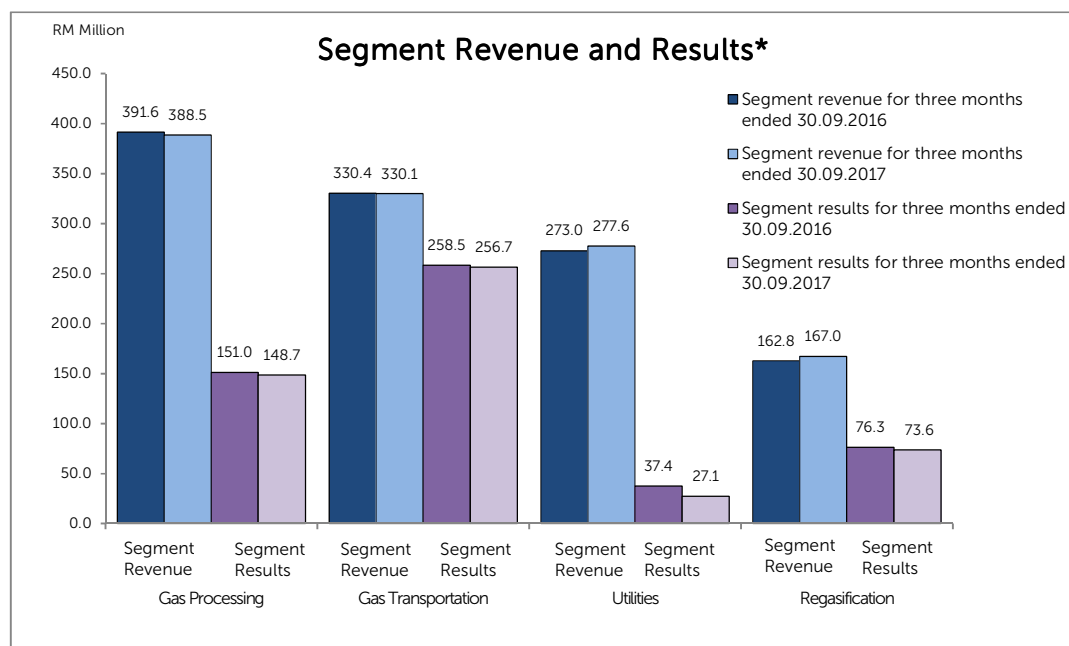
In RM'000	3 months ended		Variance %
	2017	30 September 2016	
Revenue	1,163,208	1,157,800	+0.5
Operating profit	537,230	542,113	-0.9
Profit before taxation	532,642	546,296	-2.5
Profit for the quarter	417,400	422,118	-1.1

The Group continued to record strong operational performance. Notably, the Gas Processing, Transportation and Regasification segments continued to perform well above 99% reliability. Gas processing's liquid plant extraction performance continued to exceed target, contributing towards continued PBS income albeit at lower tranches compared to corresponding quarter. Meanwhile, the Utilities segment recorded favourable selling price in line with upward fuel gas price revision although steam and industrial gases production volume were lower due to lower demand.

The Group recorded comparable revenue of RM1,163.2 million, increasing marginally by 0.5% as higher revenue contributed from Utilities and Regasification segments were offset by lower Gas Processing and Gas Transportation revenue.

Profit for the quarter declined slightly by RM4.7 million or 1.1% mainly due to lower gross profit attributable to higher depreciation in line with completion of capital projects and higher utilities cost of sales arising from upward fuel gas price revision effective 1 January and 1 July 2017.

The following section provides further analysis of the Group performance by operating segments.



*Note: Segment Results refers to Gross Profit

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017



PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

17. REVIEW OF GROUP PERFORMANCE (continued)

(a) Current quarter against the corresponding quarter (continued)

Gas Processing

Gas processing plant continued to perform at above 99% plant reliability, testament to our focus on operational excellence.

Gas processing's liquid plant extraction performance was sustained above target, contributing towards continued PBS income albeit at lower tranches compared to corresponding quarter. As a result, the segment's revenue and contribution were marginally lower by RM3.1 million or 0.8% and RM2.3 million or 1.5% respectively.

Gas Transportation

Gas Transportation segment sustained its pipeline network reliability at close to 100%, allowing the segment to register steady revenue for the quarter at RM330.1 million.

The segment contributed RM256.7 million to the Group, marginally lower by RM1.8 million or 0.7% mainly due to higher repair and maintenance costs.

Utilities

Utilities segment selling price for the quarter increased in line with upward fuel gas price revision effective 1 January and 1 July 2017. Steam and industrial gases production volume was, however, lower compared to corresponding quarter on the back of lower demand from customers due to turnaround.

As a result of favourable prices, utilities revenue for the current quarter rose by RM4.6 million or 1.7% to RM277.6 million.

The increase in revenue, however, was offset by higher cost of sales in line with upward fuel gas revision and higher depreciation following completion of several capital projects. This resulted in lower contribution to the Group at RM27.1 million.

Regasification

The Group's regasification facility in Melaka continued to record high plant reliability above 99% during the quarter. The Regasification segment recorded higher revenue by RM4.2 million or 2.6% at RM167.0 million, compared to the corresponding quarter following higher storage fees income helped by stronger USD against MYR.

The segment contributed RM73.6 million, slightly lower by RM2.7 million or 3.5% against the corresponding quarter on higher floating storage unit lease and rental as well as higher depreciation upon completion of several capital projects.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017



PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

17. REVIEW OF GROUP PERFORMANCE (continued)

(b) Current year to date period against the corresponding year to date period

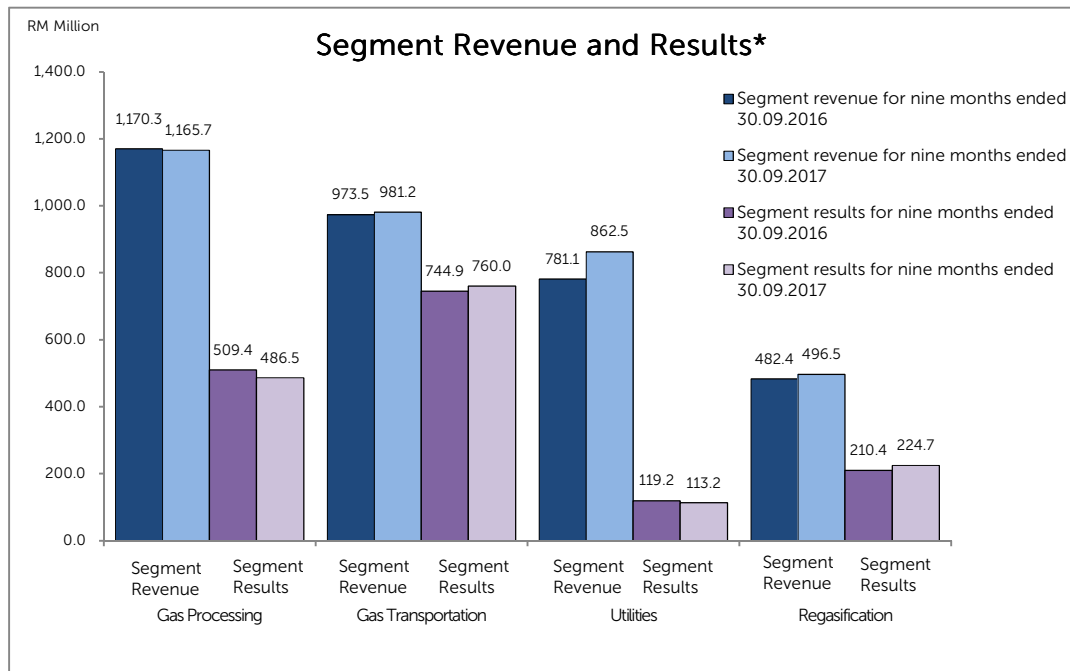
In RM'000	9 months ended		Variance %
	2017	30 September 2016	
Revenue	3,505,868	3,407,337	+2.9
Operating profit	1,668,568	1,636,864	+1.9
Profit before taxation	1,646,819	1,622,777	+1.5
Profit for the period	1,306,491	1,272,830	+2.6

For the period ended 30 September 2017, the Group continued to maintain high plant and facilities reliability. Average sales price for utilities was higher in line with upward fuel gas price revision whilst production volume increased, backed by higher demand from customers.

The Group recorded higher revenue for the period under review at RM3,505.9 million, an increase by 2.9% or RM98.6 million primarily driven by higher utilities prices and volume, further supported by higher regasification revenue.

Profit for the period increased by RM33.7 million or 2.6% on comparable gross profit, mainly due to higher other income arising from higher interest income as well as lower tax expenses.

The following section provides further analysis of the Group performance by operating segments.



*Note: Segment Results refers to Gross Profit

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017



PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

17. REVIEW OF GROUP PERFORMANCE (continued)

(b) Current year to date against the corresponding year to date (continued)

Gas Processing

Gas Processing segment continues to record excellent plant reliability performance at 99% for the period, maintaining the same achievement last year. Gas processing's liquid plant extraction performance was sustained above target, contributing towards continued PBS income albeit at lower tranches compared to corresponding period. As a result, segment revenue marginally decreased by RM4.6 million or 0.4% to RM1,165.7 million.

Gross profit declined by 4.5% or RM22.9 million to RM486.5 million on lower PBS income coupled with higher depreciation expense upon completion of several capital projects.

Gas Transportation

Gas Transportation segment sustained high gas transmission reliability at nearly 100%, at par with the corresponding period. The segment recorded higher revenue by RM7.7 million or 0.8% at RM981.2 million as the corresponding period included downward revision of Gas Transportation Sabah tariff in the second quarter of 2016. Excluding this impact, revenue would be comparable.

Driven by higher revenue and lower operational maintenance cost, segment gross profit grew by 2.0% or RM15.1 million to RM760.0 million against the corresponding period.

Utilities

During the period, the segment successfully capitalised on favourable selling price in line with upward fuel gas price revision effective 1 January and 1 July 2017 as well as higher demand from customers for electricity and steam. Accordingly, revenue rose by RM81.4 million or 10.4% to RM862.5 million.

The higher revenue was offset by higher cost of sales resulting in a 5.0% or RM6.0 million decline in gross profit compared to the corresponding period.

Regasification

The Group's regasification facility in Melaka achieved high reliability of 99%, on the back of continued efforts to improve asset integrity. The segment registered revenue of RM496.5 million, higher by RM14.1 million or 2.9% compared to the corresponding period attributable to higher storage fees following stronger USD against MYR and higher throughput volume.

Segment gross profit grew by 6.8% or RM14.3 million in line with higher revenue and lower repair and maintenance costs.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD****18. COMPARISON WITH PRECEDING QUARTER RESULTS**

<i>In RM'000</i>	3 months ended		Variance %
	30 September 2017	30 June 2017	
Revenue	1,163,208	1,173,512	-0.9
Operating profit	537,230	558,464	-3.8
Profit before taxation (PBT)	532,642	537,131	-0.8
Profit for the quarter	417,400	425,930	-2.0

Operational performance of the Group's plant and facilities were comparable against the preceding quarter, translating to stable revenue at RM1,163.2 million.

The Group's profit for the quarter declined slightly by RM8.5 million or 2% compared to the preceding quarter primarily due to lower contribution from Utilities and Gas Processing segments, following lower demand from customers due to turnaround and higher depreciation respectively. This was cushioned by higher share of profit from joint ventures.

19. COMMENTARY ON PROSPECTS

The Group's performance is expected to remain stable amidst the challenging economic environment on the back of its strong and sustainable income streams from existing Gas Processing Agreement, Gas Transportation Agreements and Regasification Service Agreement signed with PETRONAS.

Effective 16 January 2018, the Gas Transportation and Regasification segments activities shall comply with the new requirements of Gas Supply (Amendment) Act 2016, certain details of which are yet to be issued by Energy Commission.

The Group's Utilities segment will continue to contribute positively to the Group's results.

The Group's new LNG Regasification Terminal in Pengerang, Johor, which has a total capacity of 490 mmscfd, achieved commercial operation on 1 November 2017 and will contribute to the Group's revenue stream.

20. PROFIT FORECAST

Not applicable as no profit forecast was published.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD****21. TAXATION**

Taxation comprises the following:

<i>In RM'000</i>	3 months ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
Current tax expenses				
Malaysia				
- current period	110,334	33,629	271,890	77,164
- underprovision in prior year	3,617	-	3,617	-
	113,951	33,629	275,508	77,164
Deferred tax expenses				
- origination and reversal of temporary differences	1,291	90,549	64,820	272,783
Total tax expenses	115,242	124,178	340,328	349,947

The effective tax rate (ETR) for the quarter and nine months ended September 2017 was lower than the statutory tax rate of 24% mainly due to utilisation of tax incentive granted for Utilities business.

22. STATUS OF CORPORATE PROPOSAL ANNOUNCED BUT NOT COMPLETED

There was no corporate proposal announced but not completed as at the date of this report.

23. BORROWINGS

Particulars of Group's borrowings are as follows:

<i>In RM'000</i>	As at	As at
	30 September	31 December
	2017	2016
Non-Current		
Finance lease liabilities	1,041,988	1,134,012
Term loan	1,412,904	795,602
Loan from corporate shareholder of a subsidiary	507,721	287,255
	2,962,613	2,216,869
Current		
Finance lease liabilities	32,612	32,568
	2,995,225	2,249,437
<i>In RM'000</i>		
By Currency		
USD	2,995,225	2,249,437
<i>Closing exchange rate (RM/USD)</i>	4.2265	4.4845

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD****23. BORROWINGS (continued)**

Terms and debt repayment schedule:

<i>In RM'000</i>	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
Secured					
Finance lease liabilities ¹	1,074,600	32,612	39,056	141,282	861,650
Unsecured					
Term loan ²	1,412,904	-	-	1,412,904	-
Loan from corporate shareholder of a subsidiary ³	507,721	-	103,322	172,037	232,362
	2,995,225	32,612	142,378	1,726,223	1,094,012

¹ Finance lease liabilities bears interest at rate of 9.1% (2016: 9.1%) per annum.

² The unsecured term loan bears interest at rates ranging from 1.7% to 1.9% (2016: 1.2% to 2.0%) per annum and are due for full payment in February 2021. The Company had entered into a series of Interest Rate Swaps in August 2017 to hedge against variable interest rate exposure arising from the unsecured term loan.

³ Loan from corporate shareholder of a subsidiary bears interest at a rate of 6.5% per annum and repayable in tranches at their various due dates from 2018 to 2028.

Reconciliation of liabilities arising from financing activities:

<i>In RM'000</i>	Cash flows			Non-cash changes	At 30.09.2017
	At 1.01.2017	Drawdown	Repayment	Foreign exchange movement	
Finance lease liabilities	1,166,580	-	(25,598)	(66,382)	1,074,600
Term loan	795,602	681,793	-	(64,491)	1,412,904
Loan from corporate shareholder of a subsidiary	287,255	243,762	-	(23,296)	507,721
	2,249,437	925,555	(25,598)	(154,169)	2,995,225

24. MATERIAL LITIGATION

There has been no material litigation other than as disclosed in this report.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD****25. EARNINGS PER SHARE**

Basic earnings per share (EPS) is derived based on the net profit attributable to shareholders of the Company and the number of ordinary shares outstanding during the period.

	3 months ended 30 September		9 months ended 30 September	
	2017	2016	2017	2016
Net profit for the period attributable to ordinary shareholders of the Company (RM'000)	417,427	422,710	1,305,987	1,273,632
Number of ordinary shares in issue ('000)	1,978,732	1,978,732	1,978,732	1,978,732
EPS (sen)	21.10	21.36	66.00	64.37

Diluted EPS is derived based on the profit attributable to shareholders of the Company after adjustment for the effect of all dilutive potential ordinary shares. As at the date of the statement of financial position, the Company has not issued any dilutive potential ordinary shares and hence, the diluted EPS is the same as the basic EPS.

26. AUDITOR REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

As disclosed in Note 3.

27. PROFIT FOR THE PERIOD

<i>In RM'000</i>	3 months ended 30 September		9 months ended 30 September	
	2017	2016	2017	2016
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	254,867	231,366	711,629	648,043
Loss on disposal of property, plant and equipment	-	-	314	-
Loss on unrealised foreign exchange	-	1,653	-	-
Loss on realised foreign exchange	693	-	824	-
and crediting:				
Gain on realised foreign exchange	-	4,305	-	12,354
Gain on unrealised foreign exchange	5,213	-	15,222	1,174
Gain on disposal of property, plant and equipment	60	103	-	339
Interest income from fund investments	20,106	11,954	52,820	37,040

Other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Malaysia Securities Berhad are not applicable.

28. DIVIDENDS

As disclosed in Note 9.

INTERIM FINANCIAL REPORT

FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD****29. REALISED AND UNREALISED PROFITS**

The breakdown of retained profits of the Group as at reporting date, into realised and unrealised profits, is as follows:

<i>In RM'000</i>	As at 30 September 2017	As at 31 December 2016
Total retained profits/(accumulated losses) of the Company and its subsidiaries:		
- realised	9,426,233	9,064,518
- unrealised	(744,247)	(706,298)
	8,681,986	8,358,220
Total share of retained profits/(accumulated losses) from an associate:		
- realised	85,381	76,584
- unrealised	(20,596)	(22,887)
	64,785	53,697
Total share of retained profits from joint ventures:		
- realised	180,023	158,812
- unrealised	178,128	184,962
	358,151	343,774
Consolidation adjustments	(40,748)	(8,138)
Total retained profits	9,064,174	8,747,553

30. EXCHANGE RATE

USD/MYR	30.09.2017	Individual quarter ended		30.09.2017	Cumulative quarter ended	
		30.06.2017	30.09.2016		31.12.2016	30.09.2016
Average rate	4.2616	4.3329	4.0510	4.3472	4.1459	4.0875
Closing rate	4.2265	4.2950	4.1465	4.2265	4.4845	4.1465

31. AUTHORISED FOR ISSUE

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 10 November 2017.

BY ORDER OF THE BOARD

Intan Shafinas (Tuty) Hussain (LS0009774)
Yeap Kok Leong (MAICSA0862549)
Company Secretaries
Kuala Lumpur
10 November 2017